

CONFORMED COPY

LOAN NUMBER 4112-LE

Project Agreement

(Power Sector Restructuring and Transmission Expansion Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

ELECTRICIT DU LIBAN

Dated December 16, 1996

LOAN NUMBER 4112-LE

PROJECT AGREEMENT

AGREEMENT, dated December 16, 1996, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and ELECTRICIT DU LIBAN (EDL).

WHEREAS (A) by the Loan Agreement of even date herewith between Lebanese Republic (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount equal to sixty five million dollars (\$65,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that EDL agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and EDL, part of the proceeds of the loan provided for under the Loan Agreement will be made available to EDL on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS EDL, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. EDL declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Parts A and B (i) of the Project with due diligence and efficiency and in accordance with the Action Plan, in conformity with appropriate administrative, financial, engineering, environmental and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts A and B (i) of the Project.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for Parts A and B (i) of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of the Schedule to this Agreement.

Section 2.03. (a) EDL shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A and B (i) of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, EDL shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and EDL, a plan for the future operation of Parts A and B (i) of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with EDL on said plan.

Section 2.04. EDL shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, EDL shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) EDL shall, at the request of the Bank, exchange views with the Bank with regard to progress of Parts A and B (i) of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) EDL shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Parts A and B (i) of the Project, the accomplishment of the purposes of Loan, or the performance by EDL of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.06. EDL shall: (a) not later than September 30, 1997, undertake a risk assessment study reviewing EDL's insurance coverage under terms satisfactory to the Bank; (b) furnish to the Bank the results of such review for comments; and (c) implement recommendations of study taking Bank's comments, if any, into account.

Section 2.07. EDL shall carry out the environmental management plan included in the Environmental Assessment dated March 1996, in a manner satisfactory to the Bank.

Section 2.08. EDL shall maintain a PMT with staff whose qualifications and terms of reference shall be acceptable to the Bank, to assist EDL in carrying out the Project.

ARTICLE III

Management and Operations of EDL

Section 3.01. EDL shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering, environmental and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. EDL shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and environmental practices.

Section 3.03. EDL shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) EDL shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) EDL shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each of the fiscal year 1996 and the fiscal year 1997, and six months after the end of every fiscal year thereafter, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 4.02. (a) Except as the Bank shall otherwise agree, EDL shall take all measures, including periodic adjustments of its tariffs, to produce, not later than January 1, 2000, total revenues equivalent to not less than the sum of its total cash operating expenses and interest and other charges on debt; and (b) for the purposes of this Section, the term "total cash operating expenses" means all expenses related to operations including administration, adequate maintenance and taxes and payments in lieu of taxes excluding provision of depreciation.

Section 4.03. EDL shall: (a) not later than January 1, 1998, carry out a study of the structure and levels of its tariffs reflecting the actual cost of supply to different consumer groups, a lifeline rate for low income consumers and encouraging energy conservation, and furnish to the Bank such study for review and comments; and (b) not later than March 1, 1999, introduce a new tariff structure reflecting the results thereof and Bank's recommendations.

Section 4.04. (a) Except as the Bank shall otherwise agree, EDL shall not, for each of its fiscal years following the fiscal year ending on December 31, 1998, incur any debt, unless a reasonable forecast of the revenues and expenditures of EDL show that the estimated net revenues of EDL for each fiscal year during the term of the debt to be incurred shall be at least one and one half (1-) times the estimated

debt service requirements of EDL for that fiscal year including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of EDL maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net revenues" means the difference between:
 - (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) The term "reasonable forecast" means a forecast prepared by EDL not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Bank and EDL accept as reasonable and as to which the Bank has notified EDL of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of EDL.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.05. EDL shall:

- (a) prepare and furnish to the Bank not later than October 31 in each of its Fiscal Years its proposed multi-year investment program together with a proposed plan for the financing of said investment program, as they shall have been approved by the Borrower; and
- (b) afford the Bank a reasonable opportunity to exchange views with EDL on said investment program and financial plan, and thereafter

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ James D. Wolfensohn

President

ELECTRICIT DU LIBAN

By /s/ Rafic Al-Hariri

Authorized Representative

SCHEDULE

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods, including installation thereof, shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Goods, including installation thereof, shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods, including installation thereof, to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for goods shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods, including installation thereof, shall be undertaken in accordance with such procurement plan as shall have

been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods, including installation thereof, estimated to cost the equivalent of \$5,000,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

